



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RACHAEL EUBANKS
STATE TREASURER

DATE: December 18, 2020

TO: House and Senate K-12 Appropriations Subcommittees

FROM: Rachael Eubanks, State Treasurer *Rachael Eubanks*

SUBJECT: Quarterly Report - Deficit School Districts Pursuant to MCL §380.1220(2)

Attached please find one copy of the Quarterly Report of Deficit School Districts.

The report is required by Public Act 111 of 2015, the Revised School Code Section 1220(2) provides as follows:

- (1) The State Treasurer shall submit quarterly interim reports to the legislature concerning school districts, ISDs, and PSAs that are subject to periodic financial status reports or are under an enhanced deficit elimination plan (EDEP).
- (2) The State Treasurer shall publicly present those quarterly interim reports to the appropriations subcommittees of the Legislature responsible for K-12 state school aid appropriations. This is the Department's third quarterly report for FY2019-20 to the Legislature.

Additional questions about this report or other related questions for the Division should be directed to Jessica Thomas, Administrator of the School Review and Fiscal Accountability Division at ThomasJ45@michigan.gov or (517) 335-1215.

Attachments

Cc: Aaron Keel, Director of Legislative Affairs
Joyce A. Parker, Deputy State Treasurer, State and Local Finance
Jessica M. Thomas, Administrator, School Review and Fiscal Accountability
Heather Frick, Bureau Director, Bureau of Local Government and School Services

I. OVERVIEW

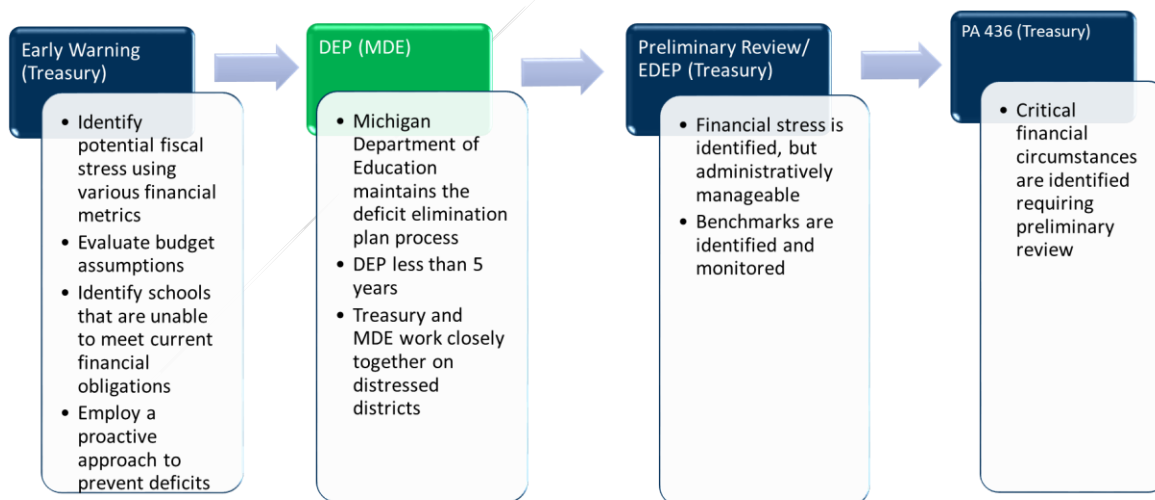
On July 7, 2015, the Governor signed into law public Acts 109-114, giving the Department of Treasury (the Department) additional financial authority and responsibilities over K-12 school districts, intermediate school districts (ISDs), and public school academies (PSAs) facing fiscal distress. The School Review and Fiscal Accountability (SRFA) Division within the Michigan Department of Treasury works closely with the Michigan Department of Education (MDE) throughout this process.

Pursuant to MCL §380.1219(3), the State Treasurer is required to determine whether potential fiscal stress exists within a school district, intermediate school district (ISD) or public school academy (PSA). Conditions of fiscal stress may include but are not limited to: 1) An operating deficit within a school district, ISD, or PSA during the current school fiscal year or the following two school fiscal years 2) A districts inability to meet its financial obligations while also satisfying the districts, ISDs, or PSAs obligations to provide public education services in a manner that complies with state law.

II. DEPARTMENT OF TREASURY PROCESS

In collaboration with MDE, the Department has developed a process to identify fiscal stress by closely monitoring data collected from the districts audited financial statements, adopted budget, State Aid Status Reports, Financial Information Database (FID), and Michigan Student Data System (MSDS).

The process is defined in the following categories: Early Warning, Deficit Elimination Plan, Preliminary Review/Enhanced Deficit Elimination Plan, and Public Act 436 of 2012.



III. EARLY WARNING

Two methods are used to determine the existence of potential fiscal stress using multiple years of data: a projection modeling tool and a review of district budgets. Table 1 is a complete list of districts showing signs of potential fiscal stress including the year they were first identified. Table 1 contains all eighteen (18) early warning districts that includes: nine (9) PSAs and nine (9) LEAs. Regarding the 2020 Fourth Quarter Report, Ann Arbor Learning Community and Lake Linden-Hubbell School District previously identified through the Department of Treasury's Early Warning Process, ended the year in a deficit and now required to report to the Michigan Department of Education pursuant to MCL §380.1220 (1). Table 2 in the Early Warning section highlights the number of districts required to report to the Department from 2016-2020.

TABLE 1: CURRENT EARLY WARNING DISTRICTS

	School District/PSA	Administrative Review (Management Co.)	Year Identified
1	Flat River Academy	Saginaw Valley State University (Midwest Schools Services, Inc.)	2016 Projection Model
2	Multicultural Academy	Bay Mills Community College (Universal Management Company, LLC)	2016 Projection Model
3	Eau Claire Public Schools	Berrien ISD	2019 Projection Model
4	Forest Park School District	Dickinson-Iron ISD	2019 Budget Review
5	Beaverton Rural Schools	Clare-Gladwin RESA	2019 Budget Review
6	Clintondale Community Schools	Macomb ISD	2019 Budget Review
7	Bradford Academy	Bay Mills Community College (Choice Schools Associates)	2019 Budget Review
8	Madison District Public Schools	Oakland Schools	2019 Budget Review
9	Center Line Public Schools	Macomb ISD	2020 Budget Review
10	Ann Arbor Learning Community	Eastern Michigan University (Charter HR Educational Services, LLC)	2020 Projection Model
11	Canton Preparatory High School	Grand Valley State University (PrepNet, LLC)	2020 Projection Model
12	Comstock Public Schools	Kalamazoo RESA	2020 Projection Model
13	Harper Woods, The School District of the City of Harper Woods	Wayne RESA	2020 Projection Model
14	International Academy of Saginaw	Bay Mills Community College (Educational Partnerships, Inc)	2020 Projection Model
15	Lake Linden-Hubbell School District	Copper County ISD	2020 Projection Model
16	Ridge Park Charter Academy	Lake Superior State University (National Heritage Academies, Inc.)	2020 Projection Model
17	Taylor Preparatory High School	Grand Valley State University (PrepNet, LLC)	2020 Projection Model
18	Wellspring Preparatory High School	Bay Mills Community College (PrepNet, LLC)	2020 Projection Model

TABLE 2: EARLY WARNING DISTRICT STATISTICS

District Status	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Total
Total Number Declared	19	8	7	16	10	60
Total Remaining	2	0	0	6	8	16
Released from Oversight	15	5	3	6	0	29
Deficit Identified*	2	2	2	3	2	11
District Closed	0	1	2	1	0	4

Note 1: Deficit Identified” refers to districts identified through the Department of Treasury’s Early Warning Process that ended the year in a deficit and now required to report to the Michigan Department of Education.

IV. ENHANCED DEFICIT ELIMINATION PLAN (EDEP)

Pursuant to MCL §380.1220(5), a school district, ISD, or PSA that has not eliminated its deficit within 5 years after the initial deficit elimination plan (DEP) is required to submit an EDEP to the Department of Treasury. A district may also be required to submit an EDEP if subjected to “rapidly deteriorating” financial circumstances.

As of December 1, 2020, there are no changes to report for EDEP districts since the September 2020 Quarterly Report. Of note, Beecher Community Schools and Hazel Park City School District have eliminated their general fund deficit as of June 30, 2020 as projected and no longer subject to Department oversight. Additionally, School District of the City of Flint, has ended the year with a positive general fund balance for FY2019-20 mainly due to proceeds from the issuance of a voter approved fiscal stability bond however, the District remains in deficit through FY2035-36. Table 3 contains a total of ten (10) EDEP districts categorized that includes: two (2) PSAs and eight (8) LEAs.

TABLE 3: CURRENT EDEP DISTRICTS

	School District/PSA	ISD or Authorizer (Management Co.)	2020 November State Aid Enrollment²	FY 2020 Audited GF Balance	FY 2021 Projected GF Balance¹
1	Vanderbilt Area Schools	Cheboygan-Otsego-Presque Isle ESD	76.67	(\$39,146)	(\$38,202)
2	South Lake Schools	Macomb ISD	1,635.60	(\$2,319,328)	(\$2,030,634)
3	Beecher Community Schools	Genesee Intermediate School District	712.10	\$649,334	\$10,071
4	Detroit Public Safety Academy	Eastern Michigan University (The Leona Group)	232.38	(\$510,317)	(\$434,757)
5	Bay City Academy	Lake Superior State University (Mitten Educational Management)	407.47	(\$811,258)	(\$521,758)
6	Pinckney Community Schools	Livingston ESA	2,434.66	(\$1,967,697)	(\$1,529,548)

TABLE 3: CURRENT EDEP DISTRICTS

	School District/PSA	ISD or Authorizer (Management Co.)	2020 November State Aid Enrollment ²	FY 2020 Audited GF Balance	FY 2021 Projected GF Balance ¹
7	Hazel Park City School District	Oakland Schools	3,060.88	\$1,615,439	\$610,651
8	Benton Harbor Area Schools	Berrien RESA	1,778.63	(\$1,215,316)	(\$3,919,778)
9	Pontiac City School District	Oakland Schools	3,934.18	(\$1,900,416)	(\$3,488,345)
10	Flint, School District of the City of	Genesee ISD	3,763.21	\$11,856,105	(\$2,116,511)

Note 1: The column titled "FY2021 Projected GF Balance" represents the estimates as approved by the District Board of Education. This number does not account for the audited beginning fund balances.

Note 2: The November State Aid Enrollment projections have been adjusted to reflect the "Super Blend" calculation for the purposes of state aid..

V. PUBLIC ACT 436 OF 2012

Public Act 436 of 2012 provides criteria in determining the financial condition, specifically, the existence of a financial emergency, within a local unit of government or school district. Section 141.1563 of the statute states that the Governor may appoint a Receivership Transition Advisory Board (RTAB) to monitor the affairs until the receivership is terminated. As of this report date, one (1) district is subject to an RTAB as detailed in Public Act 436 of 2012.

TABLE 4: CURRENT PUBLIC ACT 436 DISTRICTS

	School District/PSA	ISD or Authorizer (Management Co.)	FY 2020 General Fund Balance	FY 2021 Projected General Fund Balance
1	Muskegon Heights Public Schools	Muskegon Area ISD	\$653,744	\$603,824

Note 1: The column titled "FY2021 Projected GF Balance" represents the estimates as approved by the District Board of Education. This number does not account for the audited beginning fund balances.

Note 2: Highland Park City Schools was a P.A. 436 school District until they developed a plan to eliminate their deficit through a pledge on school operating taxes through a millage. The District was restructured to a Public School Academy in FY2012-13.

State oversight began in August 2012 for Muskegon Heights Public Schools and oversight by the RTAB began in October 2016 under Section 141.1563 of the statute.

- The District has added to the general fund balance for two consecutive years per the financial statement audits and continues to meet operating and capital debt service obligations.
- The District eliminated the deficit as of June 30, 2018 and the budget for FY 2019-20 projects an ending general fund balance of \$488,424.
- The District is currently paying emergency loans by a pledge on school operating taxes through a millage. The total amount of emergency loans issued is \$14.0 million. The total amount of emergency loans and interest as of July 2020 is \$18.8 million.